RATING REPORT

INTERNATIONAL TEXTILE LIMITED

REPORT DATE:

February 09, 2022

RATING ANALYST:

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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A	A-2
Rating Date	*February 09, 2022*		*May 11, 2020*	
Rating Outlook	Stable		Rating Watch - Developing	
Rating Action	*Downgrade*		*Maintained*	

COMPANY INFORMATION	
Incorporated in 1985	**External auditors: A.F. Ferguson & Co.**
Unlisted Public Limited Company	**Chief Executive Officer:** Mr. Adnan Azad Khan
Shareholders owning 5% and above Shares: Adnan Azad Khan- 66.9% Maliha Azad Khan- 17.6% Nishat Azad Khan- 15.4%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

International Textile Limited

OVERVIEW OF THE INSTITUTION

International Textile Limited was incorporated in Pakistan in 1985 as a private limited company. The company was converted into unlisted public company in November 1989. The registered office of the company is located in Karachi.

RATING RATIONALE

International Textile Limited (ITL) is a vertically integrated textile composite engaged in spinning, sizing, processing of yarn, manufacturing of fabric, terry and their made ups, terry dyeing and bleaching, trading and export of knitted and woven fabrics, towels and other textile products. The following table depicts the product portfolio of the company:

Product Category	Products
Morata Jet Spinning Yarn	MJS Yarn used in the Horeca (food service sector) and Medical Sector
Terry Towels and Made-ups	Home Towels, Bath Towels, Bath Robes, Shop Towels, Beach Towels, Hand Towels, Huck Towels, Dyed and Super Plush White Towels, Wash Cloth, Bath Sheet, Bar Mops and other variety of towels.
Garments	Patient Gowns, PJ Pants, Scrub suits, surgical cloths, Blankets, Chef Suits, Butcher Suits
Hotel and Restaurant linen	Napkins, Table tops, Aprons and Kitchen Sets

The company is a family owned entity with majority shareholding vested among members of a single family. ITL has three factories located in Korangi area, Karachi, which are completely self-reliant through internal power generation. In the ongoing year, the company plans to replace old gas generators with new ones that are expected to yield higher efficiency.

Recovery in industry wide exports post ease in COVID-19 lockdown measures support business risk profile of the company.

- Subsequent to posting export contraction in FY20 - owing to the pandemic-induced slowdown experienced in H2'FY20 – Pakistan's export base grew by 14% in FY21, which is partly attributable to a low base effect. Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21). So the uptick is largely aligned with historical numbers and is not considered material.
- Share of textile exports in total exports has oscillated in the range of 54-59%, coming in at 57% during the past 2-years (FY20-21). In FY21, owing to the similar low-base effect, as discussed above, textile exports were up 13%.
- In USD' terms textile exports have grown at a CAGR of 4.4% during the past 3-year period (FY19-FY21), despite depreciation in average USD/PKR parity of 24%, 16%, and 1% in FY19, FY20 and FY21 respectively.
- As illustrated in the table above, textile exports in Q1'FY22 were 37% higher than SPLY. Inclusive of textile exports for Oct'2021, the number for 4M'FY22 textile exports came in at USD 6b. With additional capacities coming online in January 2022, textile exports for FY22 are likely to exceed the annualized figure of USD 18b.
- The composition of textile exports has depicted improvement in the last 4-year period, with contribution from higher value added segment increasing from 72.9% in FY18 to 80.7% in FY21 of aggregate textile exports.

- Cotton production in Pakistan, on the other hand, was at its lowest level in decades for FY21. Cotton prices rose to a new 11-year high of ~Rs. 13,000/maund as a result of the production shortage, and cotton imports have climbed by 59.8% in quantity and 68.1% in USD terms, for FY21 vis-à-vis preceding year.
- Given favorable weather conditions, cotton production in Pakistan posted strong growth in FY22, with cotton crop for Jul-Nov'22 (Rabi) season being 81% higher than SPLY. Nevertheless, the upward momentum in cotton pricing continued in FY22, with prices as of November 2022 hovering at ~Rs. 16,000 per mound.
- The margins of textile operators have broadly depicted improvement despite the uptick in raw material costs, given that the same was offset by exchange rate movement. Nevertheless, higher raw material pricing has increased the working capital requirements for textile operators, which is likely to weigh on the liquidity of textile players. VIS expects the order book for the industry to remain adequate in the ongoing year along with transfer orders of neighboring countries, easing our business risk concerns

Expansion Plans

- In order to cater the rising demand in the MJS segment, the company plans to add 192 spindles in the same premises during the ongoing year.
- In the ongoing year, the company plans to improve the lag in processing by purchasing additional dryers to speed up the process of catering existing orders on time.
- 100 additional stitching machinery is expected to be employed by the company by end FY22.
- Existing gas generators will be replaced with ones in the ongoing year in order to improve cost efficiency. COD is expected to be in June'22.

The overall cost of the expansion plan is expected to be Rs. 1b which will be incurred in FY22. As per management, around 90% of the cost will be funded by LTFF loan financing and the remaining through internal cash resources. The impact of the planned developments on revenue, profitability and debt levels will be reflected over the rating horizon.

Revenue for FY21 decreased due to the market slowdown specifically the hotels and restaurants sector due to COVID-19. Going forward, sales are expected to escalate on account of adequate orders in pipeline given gradual recovery in the economic conditions along with expansion plans in the MJS segment.

Net sales of the company decreased by 3.5% to Rs. 8.3b (FY20: Rs. 8.6b) during FY21 due to COVID-19 led slowdown in the market specifically the hotels and restaurants sectors. Majority sales of the company cater to the export markets with export sales constituting approximately 95.5% (FY20: 96.6%) of total gross sales; as per management, only wastage is sold locally. Local sales were reported higher at Rs. 0.4b (FY20: Rs. 0.3b) while exports decreased to Rs. 8.5b (FY20: Rs. 8.6b) in FY21. According to the management, the impact of COVID-19 was less adverse due to higher demand emanating from the healthcare sector. Segment wise hotel and restaurant linen continues to be the major contributor with around 60% share in total revenue. Sales to foreign markets are primarily conducted through third party agents in order to minimize counterparty risk. Client wise sales feature sizeable concentration with top 10 export clients accounting for approximately three-fifth (60%) of total sales. Client concentration is expected to improve with ongoing plans to add new customers. Sales mix primarily comprise institutional clients with around 25% of the revenue contributed by retail clients. Going forward, management plans to increase retail concentration to 50% over the medium-term by adding retail clients in USA and Europe. Terry products, which include different types of towels continues to account for approximately 60% of total export sales of the company. Going forward, given expansion planned in the value-added segment (MJS), proportion of MJS and Garments sales is expected to increase.

Growth in sales was witnessed during 1QFY22 on the back of recovery in the macroeconomic conditions of the economy along with adequate orders in pipeline. Volumetric increase in sales was the primary driver for growth in sales during this period. Given the actual sales during the ongoing year and current orders in hand till Mar'22, sales are expected to depict reasonable growth in FY22.

Overall profitability profile of the company was impacted by lower demand amongst the pandemic, inventory losses and lower average selling prices (on $ basis) during FY21. During 1QFY22, gross margins of the company improved on account of inventory gains and demand recovery in the value-added segment.

Gross margins of the company declined to 5.3% (FY20: 7.7%) during FY21 largely on the back of lower quantum of sales, inventory losses and lower average selling prices (on $ basis) during FY21. Inventory losses were on account of major proportion of sales provided by institutional clients whereby the prices are locked at the time of placing the order. Finance charges decreased to Rs. 81.9m (FY20: Rs. 93.7m) in FY21 due to subsidized rates on the quantum of debt employed. Overall operating expenses increased primarily due to higher distribution and other operating costs incurred during FY21. Subsequently, the company reported net loss in the outgoing year. However, during 1QFY22, gross and net margins of the company improved significantly to 8.9% and 5.9%, respectively on the back of higher sales in the value-added segment and inventory gains. Going forward, with management's plans on higher sales in the MJS segment, overall profitability is projected to improve.

Liquidity indicators weakened in FY21 due to net loss incurred; however the same improved in 1QFY22 and are expected to remain in line with projected increase in overall profitability, going forward.

In absolute terms, Funds from Operations (FFO) amounted to Rs. -98.0m (FY20: Rs. 563m) depicting a sizeable decrease on account of lower overall profitability during FY21. However, in line with improvement in profitability during 1QFY22, Debt Service Coverage Ratio (DSCR), FFO/Long-Term Debt, and FFO/ Total Debt are considered adequate in view of sufficient cash flows in relation to outstanding obligations, satisfactory debt servicing ability and aging of trade debts which remain within manageable levels. Liquidity profile of the company is supported by short-term investments to the tune of Rs. 319.1m in mutual funds. nventory and trade debts provide strong coverage for short-term debt obligations while current ratio was reported at 1.6x at end-June'21. Maintaining working capital cycle and inventory days due to bulk buying of raw material in anticipation of increasing prices will also be important from a liquidity perspective.

Given additional funds planned to be drawn for the expansion in the ongoing year, leverage indicators are expected to increase, however the assigned ratings incorporate the same to remain within manageable levels for the assigned ratings.

Equity base of the company decreased to Rs. 5.4b in FY21 (FY20: Rs. 5.6b) due to loss incurred. Additional export refinance borrowings were undertaken resulting in an increase in short term borrowings at end-FY21 to finance working capital needs particularly for bulk buying of raw material in anticipation of price increase. Short-term borrowing account for 97% of the total debt. With increase in total debt levels of the company, leverage and gearing indicators have trended upwards at 0.9x (FY20: 0.8x) and 0.5x (FY20: 0.4x) at end-FY21, respectively. Going forward, capitalization indicators are expected to elevate in order to fund expansion but are projected to continue to remain at manageable levels. Maintenance of leverage indicators at manageable levels is considered important from ratings perspective.

Internal Controls framework is considered sound

Management has defined Standard Operating Procedures (SOPs) for almost every operational task; employees are required to adhere to these procedures. An internal audit department is also present which conducts both operational and departmental audits. Information Technology (IT) framework is also considered adequate. Data backup is taken on real time basis, while a Disaster Recovery (DR) site is also present.

Financial Summary (amounts in PKR millions) Appendix I				
	FY19	FY20	FY21	1Q22
BALANCE SHEET				
Property, Plant and Equipment	3,503	3,396	3,169.31	3,163.25
Other non-current assets	47	50	37.57	206.15
Stock-in-Trade	2,279	3,406	3,741.33	4,232.44
Trade Debts	1,620	1,508	1,446	1,824
Cash & Bank Balances	65	348	272	230
Total Assets	8,307	10,058	10,328	11,457
Trade and Other Payables	1,507	1,633	1,857	2,910
Long Term Debt	-	89	78	86
Short Term Debt	990	2,376	2,700	2,700
Total Debt	990	2,465	2,778	2,786
Total Liabilities	2,806	4,476	4,973	6,002
Issued, Subcribed and Paid up Capital	329	329	329	329
Total Equity	5,502	5,582	5,354	5,455
INCOME STATEMENT				
Net Sales	7,976	8,619	8,321	2,722
Gross Profit	691	666	440	242
Operating Profit	138	147	(123)	105
Profit Before Tax	491	151	(154)	187
Profit After Tax	436	65	(250)	160
RATIO ANALYSIS				
Gross Margin (%)	8.7%	7.7%	5.3%	8.9%
Net Profit Margin	5.5%	0.8%	-3.0%	5.9%
Net Working Capital	2,252	2,573	2,534	2,464
FFO	821	563	-98	228
FFO to Total Debt (%)	83%	23%	-4%	33%
FFO to Long Term Debt (%)	-	636%	-126%	1061%
Debt Servicing Coverage Ratio (x)	36.7	8.1	-0.14	7.69
Current Ratio	1.9	1.6	1.6	1.4
ROAA (%)	5.5%	0.7%	-2.4%	5.6%
ROAE (%)	8.2%	1.2%	-4.7%	11.7%
(Stock in trade+ Trade debts)/Short term Debt	393.8%	206.8%	192.1%	224.3%
Gearing (x)	0.18	0.44	0.52	0.51
Leverage (x)	0.51	0.80	0.93	1.10

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	International Textile Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
09/02/2022	A-	A-2	Stable	Downgrade
11/05/2020	A	A-2	Rating Watch - Developing	Maintained
04/03/2019	A	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	

S. No	Names	Designation	Date
1	Mr. Nadeem	Managing Director	December 22, 2021
2	Mr. Ali Haroon	CFO	December 22, 2021
3	Mr. Ali Khanani	Senior Manager Finance	December 22, 2021
4	Mr. Omer Arabi	Head of Marketing	December 22, 2021